

Fiscal Services Division Legislative Services Agency Fiscal Note

HF 2026 – E-85 Ethanol Blend (LSB 5184 YH.1)
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 Fiscal Note Version – Revised
 Requested by Representatives Dwayne Alons, Mark Kuhn, and Henry Rayhons

Description

House File 2026 eliminates the excise tax on E-85 gasoline (motor fuel containing at least 85.0% ethanol).

Assumptions

1. Under current law, from FY 2003 through FY 2007, tax rates imposed on ethanol-blended gasoline and regular gasoline are adjusted each year based on the number of gallons of ethanol-blended gasoline sold in Iowa. The tax rates are subject to change at the beginning of each fiscal year, based on the gallons of ethanol-blended gasoline sold between January 1 and December 31 of the previous year. Effective FY 2008, excise tax on regular gasoline will return to 20.0 cents per gallon, and ethanol-blended gasoline will increase from 19.3 cents per gallon (effective FY 2007) to 20.0 cents per gallon.
2. Under current law, an individual or corporate income tax credit equal to 2.5 cents is provided for each gallon of ethanol sold at a retail service station above a 60.0% threshold. The threshold is calculated by dividing the total number of ethanol gallons sold in a calendar year by the total number of ethanol and gasoline gallons sold at that station during the same year. The tax credit was first available for ethanol gallons sold in calendar year 2002.
3. The market share of ethanol-blended fuel increased 12.4% from CY 2002 to CY 2003. If the market share continues to increase by 12.4% annually, ethanol-blended and regular fuel will incur the following percentage increases and tax rates:

Fuel Tax Rates Based on Market Share of Ethanol-Blended Fuel

Ethanol Market Share		Tax Rates		
Calendar Year	Percent	Fiscal Year	Ethanol	Gasoline
CY 2004	70.1%	FY 2006	19.0 cents	21.0 cents
CY 2005	78.8%	FY 2007	19.3 cents	20.8 cents
CY 2006	88.6%	FY 2008	20.0 cents	20.0 cents
CY 2007	99.6%	FY 2009	20.0 cents	20.0 cents

4. In winter months, E-85 fuel in Iowa is blended at between E-70 and E-75. The number of gallons consumed of each fuel type is unknown. In CY 2003, an estimated 80,000 gallons of E-70 to E-75 and E-85 fuel were sold.
5. In CY 2003, if E-85 fuel was consumed in half of June, all of July and August, and half of September, approximately 27,000 gallons of E-85 was sold in Iowa.
6. If Iowa's consumption of E-85 fuel increases 50.0% in the first year following elimination of the excise tax, and increases 25.0% annually in subsequent years, total consumption of E-85 fuel is estimated to increase in the following amounts:

- CY 2004 – 20,000 gallons (July 1, 2004 – Dec. 31, 2004: 40,500 gallons x 1/2)
 - CY 2005 – 51,000 gallons
 - CY 2006 – 63,000 gallons
 - CY 2007 – 79,000 gallons
7. Much of the federal highway funding distributed to states is based on the amount of federal gas tax remitted to the Federal Highway Trust Fund. Because the federal tax on ethanol is 5.2 cents per gallon less than regular gasoline, an increase in the consumption of ethanol in Iowa decreases the amount of federal highway funds that Iowa will receive. The consumption of E-85 gasoline is so small, however, that it would have a minimal impact on Iowa's share of federal highway funds.
 8. Since 1997, Minnesota has taxed ethanol-blended fuels at 14.3 cents per gallon, while regular gasoline is taxed at 20.0 cents per gallon. From 1997 to 1998, ethanol-blended fuel consumption in Minnesota increased 528.0%, and has continued to increase at least 84.0% annually since then. The number of E-85 flexible fuel vehicles in Minnesota has increased from an estimated 1,000 vehicles in 1997 to nearly 100,000 currently. The number of E-85 fueling sites has increased from nine to 84. In the last two years, the retail price of ethanol-blended gasoline in Minnesota has averaged between 15.0 and 30.0 cents less than regular fuel.

Fiscal Impact

The fiscal impact of House File 2026 is an estimated decrease in motor fuel tax revenues to the Road Use Tax Fund in the following amounts:

- FY 2005 – \$ 5,000 (27,000 gallons x .19)
- FY 2006 – \$ 4,000 (20,000 gallons x .19)
- FY 2007 – \$10,000 (51,000 gallons x .193)
- FY 2008 – \$13,000 (63,000 gallons x .20)
- FY 2009 – \$16,000 (79,000 gallons x .20)

Federal highway funds are anticipated to decrease, however, the impact is expected to be minimal.

Sources

Department of Transportation
 Department of Natural Resources
 Department of Revenue
 American Lung Association of Minnesota
 Iowa Corn Growers Association

Dennis C Prouty

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
